

# CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

In this report, Instone Real Estate Group AG (hereinafter also: the Company) provides information about the Company's corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) on the principles of corporate governance, Section 161 of the German Stock Corporation Act (AktG) and Section 3.10 of the German Corporate Governance Code (GCGC). In addition to the Declaration of Conformity with the GCGC, the report also contains information about corporate governance and the composition and working methods of the Management Board and Supervisory Board as well as the Supervisory Board committees.

## IMPLEMENTATION OF THE GCGC

Corporate governance involves the responsible management and control of companies, geared towards long-term value creation. The corporate governance and corporate culture of Instone Real Estate Group AG comply with the legal requirements and – with a few exceptions – the additional recommendations of the GCGC. The Management Board and Supervisory Board feel very committed to good corporate governance and all divisions are guided by this objective. The Company focusses on values such as competence, transparency and sustainability.

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the Code as amended on 7 February 2017 and for the first time submitted their Declaration of Conformity with the recommendations of the Code in December 2018 in accordance with Section 161 AktG and commented on the few exceptions.

The declaration is published on the Company's website under [Instone Declaration of Conformity](#).

## DECLARATION OF CONFORMITY

Pursuant to Section 161 (1) AktG, the Management Board and Supervisory Board of a listed stock corporation must annually declare that the recommendations of the Code have been and will be complied with and which recommendations have or will not be complied with, providing reasons. This requirement is applicable to the Management Board and Supervisory Board for the first time on 28 August 2018 as this was when the Company's cross-border change of legal form into a German stock corporation was registered in the commercial register of the Company. In December 2018, the Management Board and the Supervisory Board of the Company issued the following joint declaration of conformity pursuant to Section 161 AktG:

### Declaration of Conformity according to Section 161 AktG

On 28 August 2018, Instone Real Estate Group AG changed its legal form from a Dutch stock corporation (naamloze vennootschap (N.V.)) to a stock corporation under German law ("change of legal form"). Since 28 August 2018, the Company (as a stock corporation listed at this point on the regulated market of the Frankfurt Stock Exchange) has been subject to the obligation under Section 161 (1) AktG to submit an annual Declaration of Conformity that the recommendations made by the "Government Commission on the German Corporate Governance Code", as announced by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and will be complied with and which recommendations have not or will not be complied with, providing reasons.

The Management Board and Supervisory Board declare that since 28 August 2018, the Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version last published in the official part of the Federal Gazette dated 7 February 2017 (the "Code"), with the following exceptions:

1. Adherence to the recommendation in Section 4.2.2 of the Code to set the total remuneration of Management Board members in relation to the remuneration of senior management and the relevant workforce. Within the context of the appointment of the Management Board position in November 2018, the Supervisory Board did not consider this aspect to be relevant in this case.
2. The recommendations
  - a. in Section 5.1.2 (2) 3 of the Code to establish an age limit for members of the Management Board,
  - b. in Section 5.4.1 (2) 2 of the Code to establish an age limit for Supervisory Board members,
  - c. in Section 5.4.1 (2) 2 of the Code to set a regular limit for the duration of membership of the Supervisory Board,
  - d. in Section 5.4.1 (2) 1 of the Code to establish a competence profile for the Supervisory Board overall,

were not applicable until the change of legal form and were implemented through appropriate resolutions passed on 18 December 2018. The Company has therefore complied with the Code recommendations listed in Section 2 above since this date.

3. Section 7.1.2 of the Code recommends making mandatory interim financial information publicly available within 45 days of the end of the reporting period. The Company complies with the publication of interim reports in accordance with legal requirements (making half-yearly financial reports available within three months of the end of the reporting period) and with the requirements of the Exchange Rules of the Frankfurt Stock Exchange for the Prime Standard (making half-yearly financial reports available within three months and making quarterly financial reports or communications available within two months of the end of the period under review). The Management Board and Supervisory Board consider these to be appropriate. Publication within the shorter deadline recommended by the Code would currently require the use of significant additional financial and human resources that, in the opinion of the Management Board and Supervisory Board, are disproportionate to the shareholders' need for information.

With the exception of the aforementioned deviation, explained in Section 3, from Section 7.1.2 of the Code (i.e. mandatory interim financial information publicly available within 45 days of the end of the reporting period), the Company will follow the recommendations of the Code in the future.

Essen, Germany, in December 2018

The Management Board

The Supervisory Board

## CORPORATE GOVERNANCE PRACTICES

The management of Instone Real Estate Group AG is largely determined by the provisions of the German Stock Corporation Act (AktG) and is also geared towards the requirements of the German Corporate Governance Code. In addition, the Management Board has laid down base values for lawful and ethical conduct in a Group-wide [Code of Conduct](#). This specifies existing duties and responsibilities and derives various codes of conduct on the basis of the law or existing official instructions. The Code of Conduct offers the employees of the Instone Group orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. Instone Real Estate Group AG is expressly committed to the values reflected in the Code of Conduct.

## WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As a stock corporation in accordance with the German Stock Corporation Act (Aktengesetz) with headquarters in Essen, Germany, Instone Real Estate Group AG has a dual management system consisting of the Management Board and Supervisory Board. These work together closely and trustingly for the benefit of the Company. The Management Board manages the Company, while the Supervisory Board provides advice and supervision.

The shareholders of Instone Real Estate Group AG exercise their rights at the Annual General Meeting.

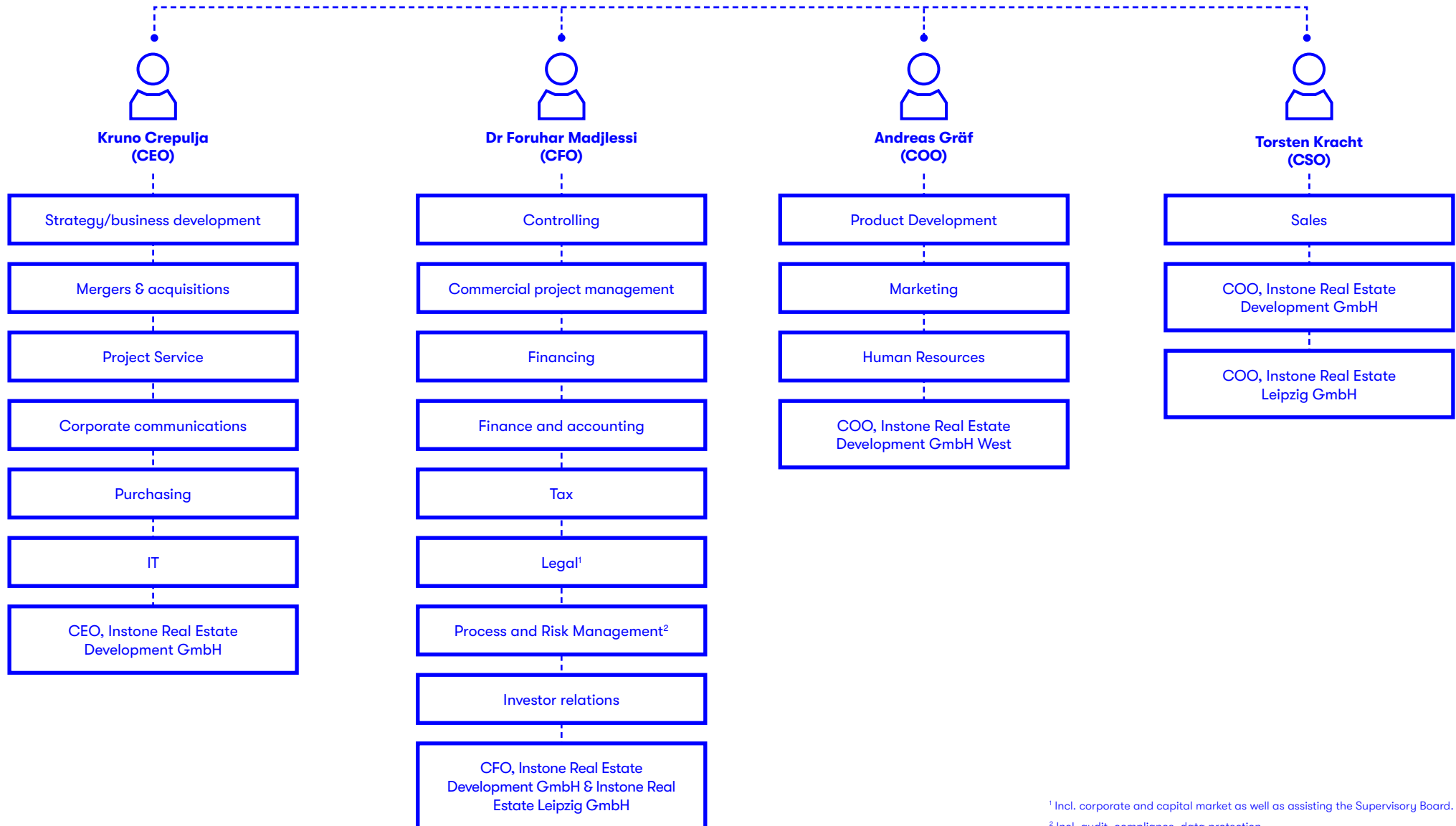
## MANAGEMENT BOARD

The Management Board manages the Company on its own responsibility in accordance with the statutory provisions, the rules of procedure and the Rules of Procedure for the Management Board. It is committed to acting in the Company's best interests. The Management Board develops the strategic direction of the Company, coordinates this with the Supervisory Board and ensures its implementation. It also bears responsibility for appropriate risk management and controlling as well as regular, timely and comprehensive reporting to the Supervisory Board.

The Management Board performs the management function as a collegial body. Irrespective of the overall responsibility for the management, the individual members of the Management Board are responsible for the departments assigned to them in accordance with the law, the Articles of Association and the Rules of Procedure for the Management Board, and are personally responsible in the context of the Board of Management resolutions. The work of the Management Board, including the allocation of responsibilities, is governed by the Rules of Procedure for the Management Board, which were adopted by the Supervisory Board and last amended in the 2018 financial year on 10 August 2018.

Accordingly, the distribution of business was as follows:

## INSTONE REAL ESTATE GROUP AG – ORGANISATIONAL CHART



<sup>1</sup> Incl. corporate and capital market as well as assisting the Supervisory Board.

<sup>2</sup> Incl. audit, compliance, data protection.

The Rules of Procedure for the Board of Management also specify when a resolution is required to be passed by the entire Management Board and for which matters a Management Board resolution always requires the participation of the Chairman of the Management Board and/or the Chief Financial Officer. Management Board meetings are held biweekly when possible, but at least once a month, under the direction of the Chief Executive Officer or the Chief Financial Officer. Occasionally, individual board members also attend by phone or video conference. The Rules of Procedure for the Management Board also allow resolutions to be passed outside of meetings. Resolutions are passed by a simple majority of the votes cast unless the law provides otherwise.

In accordance with the general representation rules of the rules of procedure, the Company is represented by two members of the Management Board or one member of the Management Board together with an authorised representative.

In addition to certain approval reservations contained in the rules of procedure, the Supervisory Board has defined certain other transactions and measures of fundamental importance in the Rules of Procedure for the Management Board which require its prior approval. These include, for example, the adoption of the annual plan, larger land acquisitions and the conclusion and amendment of certain financing agreements, as well as the implementation of certain corporate law measures. Accordingly, transactions between the Company or one of its subsidiaries and members of the Management Board or related parties require the approval of the Supervisory Board and must comply with customary market conditions.

The Management Board informs the Supervisory Board regularly, promptly and comprehensively, in accordance with the law, the rules of procedure and the Rules of Procedure for the Management Board, in particular with regard to all issues relevant to strategy, planning and business development, the risk situation, risk man-

agement and compliance relevant to the Company as well as the ongoing projects and the financing situation of the Company. The Chairman of the Management Board and the Chairman of the Supervisory Board are also in regular communication.

## SUPERVISORY BOARD

The Supervisory Board advises and monitors the Management Board. It works closely with the Management Board for the benefit of the Company and is involved in all decisions of fundamental importance.

Its rights and duties are determined by the statutory provisions, the rules of procedure, the Rules of Procedure for the Supervisory Board of 10 August 2018 and the Rules of Procedure for the Management Board. It appoints and dismisses the members of the Management Board, represents the Company when dealing with them and, together with the Management Board, ensures long-term succession planning.

The work of the Supervisory Board takes place both in plenary sessions and in committees. The work of the committees aims to further increase the efficiency of the Supervisory Board's work. The committee chairmen regularly report to the Supervisory Board on the work of their respective committees. According to its Rules of Procedure, the Supervisory Board must hold at least two meetings within six calendar months. Otherwise, it holds meetings as required in the interests of the Company.

Members of the Supervisory Board are selected in light of their respective knowledge, abilities and professional aptitude as well as their skills profile. According to the skills profile, this in particular includes the following knowledge, skills and professional experience as required for the members of the Supervisory Board as a whole:

- Experience in managing or supervising medium-sized or large companies or complex organisations;
- The members as a whole must be familiar with the real estate sector and the project development industry;
- In-depth knowledge about finance, accounting treatments, accounting, law and compliance in the Board as a whole;
- At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing (Section 100 (5) AktG);
- Experience with capital market instruments and bank financing.

Only persons who have not yet reached the age of 70 at the time of appointment are to be proposed for election as a member of the Company's Supervisory Board. The standard limit for the period of membership of the Supervisory Board is twelve years.

The Company has complied with the individual recommendations in Section 5.4.1 (2) and (3) GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the Corporate Governance Report. In the 2018 financial year, the members of the Supervisory Board fulfilled the overall competence profile.

## PROPORTION OF WOMEN

At its meeting on 18 December 2018, the Supervisory Board set the target for the proportion of women on the Supervisory Board at its current level of 20%. For the Management Board of Instone Real Estate Group AG, the Supervisory Board has set the target for the proportion of women to 0% by 30 November 2020. This decision was guided by the Supervisory Board's conviction that a position should mainly be filled on the basis of qualifications and competence – regardless of gender.

Notwithstanding, the Supervisory Board was not able to set a higher quota for the period up to 30 November 2020 due to existing circumstances. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will continue to respect diversity. The Company has met the targets during the period under review.

At its meeting on 18 December 2018, the Management Board set the target quota to 0% as the minimum proportion of women at the first management level below the Management Board, i.e. at the level of the board of directors of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH. This matches the actual quota so that the minimum size was met during the period under review. At the second board of directors level below the board of directors, i.e. at the level of the authorised representatives of the Company, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board set the minimum proportion of women at 25%. At this time, the proportion of women at this management level was 17% and the target has therefore not yet been reached. The Management Board has set a deadline of two years as the implementation deadline for achieving the target values. The Board facilitates the achievement of goals through long-term planning. This includes, for example, the targeted support of female staff through training and further education measures as well as separate working time models to promote equal opportunities in order to increase the number of women in management positions. In line with the practice adopted since the going public, the Management Board has also determined, with regard to section

4.1.5 of the Code, that diversity should also be respected and promoted for appointment of Management Functions within the Company. The Management Board believes that diversity includes – but is not limited to – age, gender, international background, education and professional experience. Notwithstanding, the appointment and promotion of senior management positions in the Company and the underlying selection decisions will continue to be materially based on specific qualifications. The Management Board will therefore continue to select managers based on their professional ability and aptitude for the specific roles in this management role, regardless of their lineage, gender, or other non-performance characteristics.

## COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

According to the Company's rules of procedure, the Management Board consists of at least two persons. The number of members is determined by the Supervisory Board. In the financial year 2018, the Management Board consisted of four members with equal rights, each responsible for the departments assigned to them. Mr Oliver Schmitt left the Management Board as of 31 December 2018. Dr Foruhar Madjlessi joined the Management Board on 1 January 2019.

According to the rules of procedure, the Supervisory Board consists of five members. It is not subject to employee co-determination. All members are elected as shareholder representatives by the Company's annual general meeting. Supervisory Board members Stefan Mohr and Richard Wartenberg resigned from office as of 31 December 2018.

Details of the members of the Management Board and the Supervisory Board can be found on page 133 in the notes to the consolidated financial statements of Instone Real Estate Group AG in accordance with Section 285 No. 10 HGB.

## COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and Supervisory Board work together closely for the benefit of the Company. The intensive and constant dialogue between the Boards forms the basis for efficient and targeted company management. The Management Board develops the strategic direction of Instone Real Estate Group AG, coordinates this with the Supervisory Board and ensures its implementation.

The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Chairman of the Supervisory Board regularly liaises with the Management Board between meetings and discusses questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The Chairman of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessment of the situation and development as well as for the management of the Company and its Group companies. The Chairman of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary.

According to the rules of procedure and Rules of Procedure for the Management Board, are subject to prior approval of the Supervisory Board in certain transactions of fundamental importance.

The members of the Management Board must promptly disclose any conflicts of interest to the Supervisory Board and their Management Board colleagues. Transactions with the Company by members of the Management Board and related parties also require the approval of the Supervisory Board, as does assumption of ancillary activities outside the Company.

A D&O group insurance policy has been concluded for the members of the Management Board and the Supervisory Board. It provides for a deductible that complies with the requirements of Section 93 (2) 3 AktG and Section 3.8 GCGC.

## SUPERVISORY BOARD COMMITTEES

In the 2018 financial year, the Supervisory Board had established three committees: the nomination committee, the audit committee and the remuneration committee. Other committees can be formed as needed.

### Nomination committee

The nomination committee advises on key topics and prepares resolutions of the Supervisory Board by proposing suitable candidates to the Supervisory Board for its nominations to the annual general meeting.

Members of the nomination committee in the 2018 financial year were:

- Stefan Brendgen (Chairman)
- Richard Wartenberg (Deputy Chairman)
- Marija Korsch

### Audit committee

The audit committee is responsible, in particular, for monitoring the accounting process, effectiveness of the internal control system and internal auditing system, the audit, in particular the independence of the auditor, additional services provided by the auditor, the appointment of the auditor, granting the audit assignment to the auditor, the determination of audit priorities and the fee agreement as well as compliance.

The audit committee prepares the resolutions of the Supervisory Board relating to the annual financial statements (and, if appropriate, the consolidated financial statements). It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of the statement or its approval and the profit appropriation proposal of the Management Board. Furthermore, the audit committee prepares the agreements with the auditor, in particular the appointment of the auditor, the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the annual general meeting. This also includes consideration of the necessary independence, whereby the audit committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the audit committee decides on the approval of contracts with external auditors with regard to additional advisory services, insofar as these agreements require approval of the Supervisory Board. The audit committee discusses the principles of compliance, risk assessment, risk management and the appropriateness and functionality of the internal control system with the Management Board.

As of 31 December 2018, the audit committee consisted of the following members:

- Dr Jochen Scharpe (Chairman)
- Stefan Mohr (Deputy Chairman)
- Stefan Brendgen

The Chairman of the audit committee is independent, has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and thus fulfils the requirements of Section 100 (5) AktG. The members of the audit committee have accounting and auditing expertise and the composition of the committee complies with all independence requirements within the meaning of the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors or members of the supervisory boards of listed companies and management/supervisory board committees (2005/162/EC) as well as within the meaning of the recommendations of the GCGC.

### Remuneration committee

The remuneration committee advises on the employment contracts of the members of the Management Board and prepares resolutions of the Supervisory Board.

As of 31 December 2018, the remuneration committee consisted of the following members:

- Richard Wartenberg (Chairman)
- Stefan Brendgen (Deputy Chairman)
- Marija Korsch

## MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual department allocation to the individual members of the Management Board.

## ANNUAL GENERAL MEETING AND SHAREHOLDERS

The shareholders of Instone Real Estate Group AG assert their rights at the annual general meeting and exercise their voting rights. Each share in the Company grants one vote.

The annual general meeting takes place annually within the first eight months of the financial year. The agenda for the annual general meeting and the reports and documents required for the annual general meeting are published on the Company's website [↗ Instone AGM](#).

Fundamental decisions are made at the annual general meeting. These include resolutions on any appropriation of profits, the discharge of the Management and Supervisory Boards, the election of Supervisory Board members and selection of the auditor, amendments to the rules of procedure and capital measures. The annual general meeting offers the Management Board and Supervisory Board the opportunity to liaise directly with the shareholders and exchange views on the further development of the Company.

Instone Real Estate Group AG provides its shareholders with a proxy who is bound to follow shareholders' instructions and who can also be contacted during the annual general meeting in order to facilitate the personal exercise of their rights. The invitation to the annual general meeting explains how instructions can be issued prior to the annual general meeting. Shareholders also remain free to be represented at the annual general meeting by a proxy of their choice.

## FURTHER ASPECTS OF CORPORATE GOVERNANCE

### Diversity

The Supervisory Board has determined that attention will continue to be paid to diversity with regard to the composition of the Management Board in the future. The Supervisory Board has also set a target for the proportion of women on the Management Board and a standard retirement age for Management Board members at the age of 65. In the interests of complementary cooperation within the Supervisory Board, the selection of candidates for the Supervisory Board should also be based on sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience. The target for the proportion of women on the Supervisory Board is currently at 20%.

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as of 31 December 2018 complies with the described diversity concepts. The members of the Management Board have a range of different professional qualifications and, inter alia, many years of experience in international corporations. Dr Foruhar Madjlessi has also been a member of the Management Board since 1 January 2019 and brings with him many years of international experience and specialist expertise in capital markets and corporate finance. Furthermore, none of the members of the Management Board has reached the age of 65. The Supervisory Board also had many members as of 31 December 2018. Above all, the Chairman of the audit committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. Several members have experience in managing or supervising medium-sized or large companies. The Supervisory Board also has a female member, which means that the self-imposed target for the proportion of women of 20% as of 31 December 2018 has also been reached and was even exceeded following the departure of Mr Mohr and Mr Wartenberg. No member of the Supervisory Board had reached the age of 70 at the time of election.

### Reportable securities and shares of the Management Board and Supervisory Board

The members of the Management Board and Supervisory Board of Instone Real Estate Group AG, as well as persons closely related to them, are, in accordance with Article 19 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) required to report transactions in Instone Real Estate Group AG shares or related financial instruments to the Company without delay and no later than three business days after the date of the transaction. The Company publishes the notifications pursuant to Article 19 (2) of the Market Abuse Regulation without delay and no later than three business days after the transaction. The reports can be found on the Company's website at [↗ Instone Managers Transactions](#).

### Compliance management system

Compliance at Instone Real Estate is an integral part of successful and responsible corporate governance.

We are committed to ethical principles and valid legal norms. We have enshrined this in our compliance management system policy and employee code of conduct, which is available on our website at [↗ Instone Code of Conduct](#). Furthermore, there are various guidelines, such as the Grant Policy, which sets out the legal framework and our internal guidelines for our employees. Our goal is to focus on compliance and find a positive as well as motivational approach to our employees. The Code of Conduct is applicable throughout the Group and was introduced in all affiliated companies where we have direct or indirect controlling influence.

A controlling influence is normally to be assumed if there is a participation in at least 50% of the voting rights.

Our central compliance organisation sees itself as a key contributor to an integrity-led corporate governance and culture. It promotes a compliance culture in our Company and ensures that this is internalised among managers and employees.

The ultimate goal of the Group-wide compliance management system is to prevent violations of applicable laws and internal policies and to protect the Instone Group and its employees from inappropriate and unlawful conduct. We have therefore implemented a compliance management system that identifies risks, reduces them and ensures compliance within the Company. All activities are in accordance with the legal requirements and our guidelines and internal regulations. The Compliance Officer at Group level is responsible for the Group-wide structuring, further development and implementation of the compliance management system and the implementation of the training courses. All compliance officers are responsible for conducting the quarterly meetings of the relevant compliance committee and overseeing the compliance management system in their company. All Compliance Officers are available to employees as contact persons for compliance issues. The effectiveness and appropriateness of the compliance system are reviewed at regular meetings of the compliance committee, and any follow-up needs are identified and carried out.

We regularly conduct compliance and data protection training that provides our employees with reliable information about laws and codes of conduct. Participation in the training events is mandatory and is reviewed and documented. In the financial year, the topics related primarily to anti-corruption, data protection and competition and antitrust law.

Despite the best prevention measures, companies may still be subject to infringements and breaches of duty. Our employees have their supervisors, compliance officers and a whistle-blower hotline at their disposal to report violations and suspicions of violations of rights, legislation and internal policies and regulations. Calls to the whistle-blower hotline connect to an external law firm and are shared anonymously with the Company.

We consistently follow all instructions within the scope of the legal options, pursue their clarification without compromise and impose sanctions appropriate to the offence and degree of blame. Within the scope of the ongoing development of the compliance management system and when dealing with legal issues, the Management Board and compliance officer at the Group level can be given legal advice if required.

We also demand compliance with our high standards from our business partners and suppliers. In our Code of Conduct for contractors, they commit to refrain from any kind of corruption or acts that could be construed as such. We also expect and work to ensure that our business partners and suppliers respect these obligations, principles and values and take all necessary measures to prevent and punish active and passive corruption.